

Message Text

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ACTION EA-09

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UNCLAS SECTION 1 OF 2 TAIPEI 8444

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TAGS: ENRG, ECON, OPEC, TW
SUBJECT: EFFECT OF OPEC PRICE INCREASE ON ROC

SUMMARY: GROC OFFICIALS BELIEVE DIRECT IMPACT OF OPEC PRICE INCREASE WILL NOT BE SERIOUS, BUT ARE SOMEWHAT CONCERNED OVER POSSIBLE INDIRECT EFFECTS, E.G., REDUCED DEMAND FOR ROC GOODS IN JAPANESE, US, AND EEC MARKETS. MAJOR IMPACT HERE WILL BE REFLECTED IN HIGHER ELECTRICITY COSTS. TAIWAN POWER COMPANY ON DEC. 20 ANNOUNCED AN AVERAGE INCREASE IN ELECTRICITY RATES OF 20 PERCENT. THE NEW RATE STRUCTURE SLIGHTLY FAVORS INDUSTRIAL USERS SO AS TO MINIMIZE THE EFFECT ON LOCAL MANUFACTURERS' COMPETITIVE-EXPORT POSITIONS. POST-HIKE POWER RATES REPORTEDLY WILL STILL BE UNDER THOSE PREVAILING IN JAPAN, KOREA, THE PHILIPPINES, HONG KONG AND MALAYSIA. CHINA PETROLEUM COMPANY (CPC) IS ABSORBING MORE THAN HALF THE INCREASE IN ITS IMPORTED CRUDE OIL COSTS. IT HAS ANNOUNCED THAT IT WILL FREEZE PRICES OF ITS PRODUCTS, EXCEPT FOR FUEL OIL SOLD TO TAIWAN POWER COMPANY (TAIPOWER), UNTIL AT LEAST JUNE 1977. THE TAIPOWER RATE INCREASE IS EXPECTED TO RAISE PRICES OF COMMODITIES
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HERE BY 0.5 PERCENT, DIVERT 0.29 PERCENT OF AN AVERAGE FAMILY'S INCOME FROM OTHER USES, AND ADD 0.55 PERCENT TO THE COST OF PRODUCTION OF AN AVERAGE MANUFACTURER. GROC ALSO HAS ANNOUNCED SOME MILD CONSERVATION MEASURES TO BE IMPLEMENTED IN THE NEAR FUTURE. IT ALSO PLANS TO STEP UP DEVELOPMENT OF NEW SOURCES OF ENERGY. END SUMMARY.

1. MINISTER OF ECONOMIC AFFAIRS Y.S. SUN HAS MINIMIZED LIKELY DIRECT EFFECTS OF LATEST OPEC PRICE INCREASE. HE IS SOMEWHAT MORE CONCERNED OVER LONG-RANGE, INDIRECT EFFECTS OF THE OPEC DECISION, FOR EXAMPLE, THE IMPACT ON THE ECONOMIES OF MAJOR PURCHASERS OF ROC EXPORTS, PARTICULARLY JAPAN AND THE EEC, WITH RESULTING REDUCTION IN DEMAND FOR TAIWANESE PRODUCTS. HE IS ALSO CONCERNED THAT PRODUCTS WHICH NOW ARE ONLY marginally COMPETITIVE IN THE U.S., TAIWAN'S BIGGEST EXPORT MARKET, WILL BE RENDERED NON-COMPETITIVE BY THE DIFFERENTIAL EFFECT OF THE OPEC PRICE HIKE ON COSTS OF PRODUCTION IN TAIWAN, WHICH IS DEPENDENT ON IMPORTED OIL FOR 70 PERCENT OF ITS ENERGY REQUIREMENTS, AND THE U.S., WHERE IMPORTED OIL CONSTITUTES A FAR SMALLER PROPORTION OF THE TOTAL ENERGY SUPPLY.

2. THE DIRECT LOCAL EFFECTS PREDICTED BY VARIOUS GROC SPOKESMEN INCLUDE THE FOLLOWING:

A. AN INCREASE IN THE COST OF IMPORTED PETROLEUM OF ABOUT US \$100,000,000 OVER THE NEXT YEAR. THIS PROJECTION IS BASED ON AN ASSUMPTION OF AN AVERAGE 8 PERCENT INCREASE IN PRICES DURING THE FIRST HALF OF 1977 AND A 10.8 PERCENT INCREASE FOR THE REMAINDER OF THE YEAR. THIS ASSUMPTION IN TURN IS BASED ON SEVERAL OTHERS, INCLUDING (1) NO UPWARD REVISIONS IN PRICE BY SAUDI ARABIA; (2) NO DRASTIC CHANGES IN CONSUMPTION TRENDS. SAUDI ARABIA CURRENTLY PROVIDES 40 PERCENT OF TAIWAN'S IMPORTED PETROLEUM, AND OTHER OPEC STATES, PRINCIPALLY KUWAIT, THE REMAINDER. (TAIWAN PRODUCES LESS THAN 2 PERCENT OF ITS TOTAL CONSUMPTION.) COST OF PETROLEUM IMPORTS FOR THE FIRST 11 MONTHS UNCLASSIFIED

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OF 1976 HAS TOTALLED US \$930,300,000 (UP BY 69.4 PERCENT COMPARED WITH THE SAME PERIOD LAST YEAR). THIS FIGURES EQUATES TO 13.7 PERCENT OF THE COUNTRY'S TOTAL IMPORTS. THE RAPID GROWTH IN PETROLEUM IMPORTS SINCE 1975 REFLECTS PARTLY AN INCREASE IN CONSUMER DEMAND, PARTLY A STOCKPILING EFFORT ON THE PART OF THE GOVERNMENT WHICH HAS CREATED A RESERVE AMOUNTING TO AT LEAST THREE MONTHS PROJECTED CONSUMPTION. OIL IMPORTS, RUNNING IN THE VICINITY OF 80,000,000 BARRELS A YEAR AT PRESENT, ARE NOT EXPECTED TO SHOW ANY SUBSTANTIAL INCREASE IN THE COMING YEAR. IN TAIWAN, AT PRESENT, ABOUT HALF OF ALL PETROLEUM IS USED FOR POWER GENERATION AND INDUSTRIAL PURPOSES.

B. AN INCREASE IN ELECTRICAL POWER RATES. ON DECEMBER 19, THE GOVERNMENT-OWNED TAIWANPOWER COMPANY ANNOUNCED AN AVERAGE RATE INCREASE OF 20 PERCENT, TO TAKE EFFECT THE NEXT DAY. THE INCREASE IS GREATEST FOR HOUSEHOLD USE (22.79 PERCENT), FOLLOWED BY COMMERCIAL ESTABLISHMENTS (21.19 PERCENT), AND

POWER FOR INDUSTRIAL PRODUCTION (18.94 PERCENT). THE DIFFERENTIAL RATE HIKE IS DESIGNED TO MINIMIZE THE IMPACT ON EXPORT MANUFACTURERS' COSTS AND COMPETITIVE POSITIONS. THE INCREASE WILL BRING THE AVERAGE RATE TO US \$.033 PER KHW, BUT THAT FIGURE REPORTEDLY WILL STILL BE ONE OF THE LOWEST IN ASIA. THE 20 PERCENT RATE HIKE IS ONLY PARTLY A RESULT OF THE LATEST OPEC DECISION. THE CHINA PETROLEUM COMPANY IS RAISING THE PRICE OF OIL SOLD TO TAIPOWER BY ONLY 10 PERCENT, TO NT \$2,585 (US \$68.03) PER 1000 LITERS. THE REMAINDER OF THE RATE HIKE WAS PROMPTED BY A DECLINE IN TAIPOWER'S RATE OF RETURN FROM 9.5 PLUS PERCENT TO 8.8 PERCENT IN FY 1975, 7.5 PERCENT IN FY 1976, AND AN ESTIMATED 5 PERCENT FOR THE CURRENT FISCAL YEAR. MAINTENANCE OF A 9.5 PERCENT RATE OF RETURN IS NECESSARY IN ORDER FOR TAIPOWER TO RETAIN INTERNATIONAL CREDIT RATINGS. THE NEW RATE INCREASE IS EXPECTED TO RAISE THE RATE OF RETURN BACK TO THE DESIRED 9.5-12 PERCENT RANGE AND ALLOW FOR SOME EXPANSION OF CAPACITY.

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C. AN INCREASE IN COMMODITY PRICES OF ABOUT 0.5 PERCENT.

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D. A DIVERSION OF APPROXIMATELY 0.29 PERCENT OF THE AVERAGE FAMILY'S INCOME FROM OTHER USES. IN 1975, TYPICAL EXPENDITURES FOR ELECTRICITY FOR THE AVERAGE HOUSEHOLD AMOUNTED TO 1.43 PERCENT OF TOTAL INCOME; DURING THE FIRST SIX MONTHS OF 1976, 1.34 PERCENT. WITH THE INCREASE, THAT FIGURE WILL RISE TO 1.63 PERCENT.

E. AN INCREASE IN THE AVERAGE COST OF MANUFACTURED GOODS, ESTIMATED AT 0.55 PERCENT. POST-RATE-HIKE POWER BILLINGS WILL ACCOUNT FOR 3.56 PERCENT OF PROJECTED OVERALL PRODUCTION COSTS.

F. A RISE IN PRICE OF EXPORTS OWING TO OR JUSTIFIED BY THE INCREASE IN ELECTRICAL POWER COSTS. THIS RISE HAS ALREADY BEGUN WITH AN ANNOUNCEMENT BY SYNTHETIC FIBER MANUFACTURERS THAT THE PRICE OF NYLON STRETCH YARN WILL BE INCREASED BY NT \$1 (US \$0.263) PER POUND, AND PROCESSED FIBER BY 20 US CENTS PER POUND. EXPORT PRICES OF TETRON (STRETCH) YARN CHARGED BY INDIVIDUAL COMPANIES WILL BE RAISED BY US \$.05 PER POUND, WHILE THOSE FOR YARN SOLD TO PROCESSING FACTORIES WILL BE INCREASED BY NT \$2 (US\$.0526).

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3. VARIOUS LONG-RANGE AND/OR INDIRECT EFFECTS ON THE EXPORT-DEPENDENT ROC ECONOMY ARE FEARED. THE COMPETITIVE POSITION OF THE ROC VIS-A-VIS ITS ASIAN COMPETITORS STANDS TO BE LITTLE AFFECTED BY THE OPEC PRICE INCREASE (IN SOME INSTANCES IT MAY EVEN BE IMPROVED, INASMUCH AS 40 PERCENT OF TAIWAN'S OIL COMES FROM SAUDI ARABIA). HOWEVER, THERE IS SOME ANXIETY OVER THE PROSPECT THAT OPEC'S ACTIONS WILL SLOW DOWN OR ABORT ECONOMIC RECOVERY IN THE THREE AREAS WHICH TAKE THE MAJORITY OF TAIWAN'S EXPORTS: THE U.S., JAPAN, AND THE EEC. ALTHOUGH IT IS RECOGNIZED THAT THE UNITED STATES WILL PROBABLY BE FAR LESS AFFECTED BY THE INCREASE THAN JAPAN AND THE EEC, IT IS NEVERTHELESS FEARED THAT TAIWANESE ITEMS NOW ONLY MARGINALLY COMPETITIVE IN U.S. MARKETS MAY BE DISPLACED INASMUCH AS THE PRICE INCREASE WILL PROBABLY HAVE A DIFFERENTIAL EFFECT ON MANUFACTURING COSTS IN THE TWO COUNTRIES, ONE FAVORABLE TO U.S. DOMESTIC PRODUCERS.

4. ONLY PART OF THE OIL PRICE INCREASE IS BEING PASSED ON BY THE CHINA PETROLEUM CORPORATION. ALTHOUGH IT EXPECTS TO PAY AN ADDITIONAL NT\$1.4 BILLION (US \$39.5 MILLION) FOR ITS CRUDE IMPORTS DURING THE NEXT SIX MONTHS, CPC IS PASSING ON TO TAIPOWER ONLY NT \$500 MILLION OF THIS AND IS ABSORBING THE REST. IT HAS ANNOUNCED THAT THE PRICE OF ALL ITS PRODUCTS, EXCEPT FUEL OIL FOR TAIPOWER, WILL BE FROZEN AT PRESENT LEVELS UNTIL AT LEAST NEXT JULY. CPC IS ABLE TO DO THIS BECAUSE (1) IT HAS STOCKPILED A RESERVE EQUIVALENT TO AT LEAST THREE MONTHS

IMPORTS AT CURRENT RATES OF CONSUMPTION; AND (2) AS A RESULT OF AN EXPANSION OF FACILITIES AND BRISK SALES, CPC'S SALES PROFITS IN THE FIRST HALF OF THE CURRENT FISCAL YEAR HAVE ALREADY NEARLY REACHED THE GOAL OF NT \$2,400 MILLION (US\$ 63.2 MILLION) PROJECTED FOR THE ENTIRE YEAR.

5. UNLESS PRICES OF URANIUM FUEL INCREASE AT AN UNEXPECTEDLY RAPID RATE, LONG-RANGE POWER COSTS IN TAIWAN WILL PROBABLY SHOW A FAVORABLE TREND VIS-A-VIS THOSE PREVAILING AMONG EXPORT UNCLASSIFIED

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COMPETITORS NOT HAVING UNDERTAKEN AS MAJOR A NUCLEAR DEVELOPMENT PROGRAM AS THE ROC. AT PRESENT, THERMOPOWERPLANTS ACCOUNT FOR 75 PERCENT OF INSTALLED CAPACITY AND FUEL COSTS ACCOUNT FOR 75 PERCENT OF OVERALL POWER GENERATION COSTS ON THE ISLAND. WHEN THE FIRST AND SECOND NUCLEAR FACILITIES

HAVE COME ON STREAM (BY THE EARLY 80'S), COST OF OIL AS A PERCENTAGE OF TOTAL ENERGY COSTS IS EXPECTED TO DROP TO 60 PERCENT. UPON COMPLETION OF THE THIRD FACILITY, PROJECTED FOR 1984, PETROLEUM COST IS EXPECTED TO DROP TO THE NEIGHBORHOOD OF 33 PERCENT OF OVERALL ENERGY COST. THE GROC PLANS TO PUSH DEVELOPMENT OF BOTH NUCLEAR POWER AND OTHER POTENTIAL ENERGY SOURCES, INCLUDING GEOTHERMAL.

6. THROUGH TAIPOWER, THE GROC HAS ANNOUNCED SOME RELATIVELY MILD CONSERVATION MEASURES. AMONG THESE MEASURES:

A. TAIPOWER WILL NO LONGER ACCEPT APPLICATIONS FOR INSTALLATION OF ELECTRIC WATER HEATERS OF MORE THAN 5KW CAPACITY.

B. CITY AND COUNTRY GOVERNMENTS ARE BEING REQUESTED TO CUT STREET LIGHTING BY ONE-HALF.

C. LOCAL T.V. BROADCASTING STATIONS ARE BEING ASKED TO REDUCE BROADCASTING HOURS.

D. OWNERS OF RESTAURANTS AND THEATERS ARE BEING REQUESTED TO SHORTEN THEIR HOURS OF BUSINESS.

R

E. USERS OF HEAVY AIR-CONDITIONING AND HEATING EQUIPMENT ARE BEING ASKED TO SET THERMOSTATS HIGHER IN SUMMER MONTHS AND LOWER IN WINTER.

F. THE GOVERNMENT WILL TRY THROUGH MASS MEDIA TO EDUCATE THE CITIZENRY AS TO THE NEED FOR ENERGY CONSERVATION.

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IT SHOULD BE NOTED THAT TAIPOWER PRESENTLY SERVES
3,248,000 HOUSEHOLDS AND INSTITUTIONS, OF WHICH 126,000 USE
ELECTRICITY FOR INDUSTRIAL PURPOSES OR OTHERWISE CONSUME
LARGE AMOUNTS.

7. THE EMBASSY WILL FOLLOW UP WITH ESTIMATES OF THE IMPACT
OF THE OPEC ACTION ON INDIVIDUAL SECTORS OF THE ECONOMY AS
INFORMATION BECOMES AVAILABLE.

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